

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-03 SS-14 INR-10 SP-01 PRS-01 L-02

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 9826

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C O N F I D E N T I A L LIMA 3193

STADIS - LIMDIS////////////////////////////////////

E.O. 11652: GDS

TAGS: EFIN, EMIN, ETRD, APUB, PE

SUBJECT: SOUTHERN PERU COPPER CORPORATION CUAJONE PROJECT  
NEGOTIATIONS

REFS: ATLANTA 22, STATE 79809, 71238, 454276, LIMA 2857

SUMMARY: TOP LEVEL SPCC LIMA OFFICIAL TOLD EMBASSY OFFICER  
APRIL 23 THAT ONLY ONE PROBLEM REMAINS TO BE RESOLVED BETWEEN  
GOP AND SPCC IN ORDER TO TIE DOWN CUAJONE FINANCING. PROBLEM  
CONCERNS WHO HAS THE RIGHT TO REGINE CUAJONE'S ANNUAL PRODUCTION  
IN EXCESS OF 120,000 S.T., DURING PERIOD OF RECUPERATION OF  
INVESTMENT (APPROXIMATELY 5 YEARS). ISSUE COULD BE RESOLVED  
TODAY, OR IN NEAR FUTURE. IF NOT RESOLVED, HOWEVER, PACKAGE  
WOULD CERTAINLY BE IN JEOPARDY. END SUMMARY.

2. SPCC OFFICIAL OUTLINED EVENTS AS FOLLOWS: ON APRIL 10, 1974,  
MINISTRY OF MINES ISSUED FIVE NEGOTIATING POINTS FOR MINERO-  
PERU TO USE WHEN NEGOTIATING THE GLOBAL ARRANGEMENTS FOR THE  
SALE OF CUAJONE COPPER WITH SPCC. FOUR POINTS HAVE NOW BEEN  
RESOLVED BETWEEN SPCC AND MINEROPERU. UNRESOLVED POINT CONCERNS  
ESTIMATED 37,723 S.T. OF BLISTER (OR 22.190 PERCENT OF TOTAL  
ANNUALLY ESTIMATED CUAJONE BLISTER PRODUCTION OF 170,000 S.T.)  
AND REQUEST BY MINEROPERU TO SPCC THAT THIS COPPER BE REFINED  
IN MINEROPERU'S ILO REFINERY NOW UNDER CONSTRUCTION. SPCC AND  
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ITS FINANCIAL BACKERS HAVE BALKED ON THIS POINT BECAUSE A MAY

1973 UNDERSTANDING BETWEEN GOP AND SPCC GAVE LATTER THE RIGHT, FOR A PERIOD OF EIGHT YEARS TO SELL AMOUNT IN EXCESS OF 120,000 S.T. TO FOUR SPCC CO-OWNERS.

3. ISSUE OVER AMOUNT OF COPPER TO BE REFINED AT ILO MINEROPERU REFINERY, ACCORDING SPCC SOURCE, IS DELICATE ONE SINCE PRESIDENT VELASCO, AS WELL AS OTHER RANKING GOP FIGURES, BELIEVES THAT AS MUCH BLISTER COPPER AS POSSIBLE SHOULD BE REFINED IN PERU TO INCREASE VALUE ADDED, ALTHOUGH ACTUAL ECONOMIC COSTS AND BENEFITS OF REFINING ALREADY 99.92 PERCENT PURE BLISTER ARE QUESTIONABLE. HOWEVER, SINCE SPCC AND FINANCIAL BACKERS HAVE REFUSED ACCEPT MINEROPERU REQUEST REFINED 37,000-ODD S.T., SPCC HAS OFFERED COMPROMISE PACKAGE TO MINEROPERU ALONG FOLLOWING LINES. MINEROPERU WOULD REFINED 50 PERCENT OF 37,000 S.T. WHILE OTHER 50 PERCENT WOULD BE REFINED OUTSIDE OF PERU BY PURCHASERS. IN ADDITION, TO "SWEETEN THE POT" SPCC HAS OFFERED TO REDUCE FROM 15 YEARS TO APPROXIMATELY 5 YEARS (ESTIMATED PERIOD OF CAPITAL RECUPERATION FOR CUAJONE) PERIOD DURING WHICH 4 SPCC CO-OWNERS WOULD HAVE OWNERSHIP OF ANOTHER PORTION OF CUAJONE PRODUCTION AMOUNT TO 32,277 S.T. (OR 18.986 PERCENT OF CUAJONE'S EST. 170,000 S.T.). THIS COULD OFFER CONSIDERABLE ADVANTAGE TO GOP WHICH COULD SELL THIS AMOUNT COPPER ITSELF STARTING IN 1981 RATHER THAN WAITING ANOTHER DECADE TO DO SO.

4. SOURCE, IN VERY CANDID DISCUSSION, NOTED THAT SPCC CANNOT AFFORD TO WAIT MUCH LONGER TO TIE DOWN FINANCING PACKAGE, AND SHOULD 90 REFUSE TO ACCEPT COMPROMISE, CUAJONE WOULD INDEED BE IN SERIOUS JEOPARDY. SOURCE NOTED THAT IN HEATED CABINET MEETING APRIL 16, MINISTER OF MINES FERNANDEZ MALDONADO HAD BEEN TONGUE-LASHED BY PRESIDENT VELASCO FOR SELLING OUT "NATIBNAL PATRIMONY" OVER OTHER CONCESSIONS MINISTER OF MINES AND MINEROPERU HAD ALREADY MADE TO SPCC. MINISTER OF TRANSPORT MENESES, AMONG OTHERS, ALSO APPARENTLY CRITICIZED FERNANDEZ MALDONADO'S HANDLING OF CUAJONE AFFAIR. ACCORDING SOURCE, ISSUE COULD BE RESOLVED AT COUNCIL OF MINISTERS' MEETING TODAY. HE PROMISED INFORM EMBASSY OF RESULTS, IF ANY.

5. BY WAY OF BACKGROUND FOR DEPARTMENT, EMBASSY OFFICER ALSO LEARNED THAT SPCC AND ASARCO BOARD CHAIRMAN, ON ONE HAND, AND CHASE REPRESENTATIVES ON THE OTHER, MAY HAVE HAD FALLING OUT CONFIDENTIAL

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OVER NEGOTIATING TACTICS EARLIER THIS MONTH DURING VISIT OF ASARCO AND CHASE REPRESENTATIVES. APPARENTLY CHASE REPRESENTATIVES MET INDEPENDENTLY WITH MINISTER OF MINES AND WERE INFORMED THAT GOP INSISTED THAT 37,000 S.T. BE REFINED AT ILO, BUT CHASE LODGED NO PROTEST AT THAT TIME. LATER, WHEN ARASCO AND SPCC LEARNED OF THIS DEVELOPMENT THEY WERE DISPLEASED THAT CHASE HAD NOT IMMEDIATELY OBJECTED.

6. IN ANALYZING MOTIVES OF GOP, SOURCE SAID ALL PARTIES SHOULD REMEMBER THAT GOP HAS IN FACT MADE VERY CONSIDERABLE CONCESSIONS FROM ITS POINT OF VIEW TO SPCC IN ORDER TO ALLOW LATTER FIND FINANCING. DECEMBER 1969 BASIC CUAJONE CONTRACT CALLS FOR SPCC TO SELL ALL BLISTER DURING PERIOD OF CAPITAL RECUPERATION (WHICH IS NOW CALCULATED, AS MENTIONED ABOVE, AT 5 YEARS). HOWEVER, GOP, LAST YEAR, IN ORDER TO MEET REQUIREMENTS OF THOSE COPPER BUYERS WHO OFFERING TO PROVIDE FINANCING TO SPCC, AGREED THAT MAJORITY OF CUAJONE COPPER WOULD BE PROPERTY OF SPCC FOR 15-YEAR PERIOD, A NOT INCONSIDERABLE CONCESSION ON PART OF GOP. OF COURSE, SOURCE ADDED, THAT WITHOUT SUCH AGREEMENT PACKAGE WOULD NEVER HAVE JELLED.

COMMENT: LOCAL SPCC OFFICIAL OBVIOUSLY VERY CONCERNED OVER PROBLEMS, BUT IS NOT REPEAT NOT PREDICTING THAT PROJECT WILL FALL THROUGH. IN REGARD TO POSITION OF GOP, IT USEFUL TO RECALL THAT FERNANDEZ MALDONADO, WHO BY MOST LIGHTS IS CONSIDERED A LEADING RADICAL, IS APPARENTLY NOT THE VILLAIN OF THE PIECE IN THE CASE OF THIS PARTICULAR MAJOR US EXTRACTIVE INDUSTRY. EMBASSY PREPARING CHRONOLOGY OF FACTS SUBMITTED SEPARATELY. DEAN

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## Message Attributes

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